

It's time to let your investments have a new beginning!

Equity Indexed and Fixed Indexed Annuities

More and more people are inquiring about Equity Indexed Annuities (EIA's) also known as Fixed Indexed Annuities (FIA's). As the baby boomers approach retirement and catastrophic market downturns have devastated their accounts, people have shifted their focus from aggressive growth to safety of principal. The vehicles discussed in this article can provide both safety and growth; and therefore represent a new opportunity for you as an investor.

Until recently, you had two methods of investing. The first, involved no risk; and consequently very small potential gain. These types of investments included CD's, bank accounts, treasury bills, etc. Your other option was great potential gain (12-15%), but with great inherent risk, i.e. the stock market. There is now a third choice, double-digit gain, with absolutely NO RISK. This third product is called an Equity Indexed Annuity (EIA) or a Fixed Indexed Annuity (FIA). It is very unique and extremely safe. I will explain the rationale and the mechanism below.

Throughout the last 70 years, nothing has outpaced the stock market for overall returns. If one had invested \$1000 in 1925 in something safe such as long-term government bonds, it would have been worth approximately \$33,730 in 1996. If the same \$1000 dollars had been invested in blue chip stocks, the 1996 value would have been a larger \$1,370,950 (see illustration I). Would you agree that there is a world of difference between \$33 thousand and \$1 million three hundred thousand dollars?

The challenge, however, is that the dips and corrections cause such consternation that it wears out even the most committed investor and they inevitably have stress and emotional turmoil from the fear that the stocks that they have chosen might not be the ones that recover. Additionally, before an investor can even begin to see a gain he must first wait to recover back to even. Precious time is lost in the recovery process.

Between the years of 1946 and 1990 there were 10 corrections (drops in the market) that were greater than 20% (see illustration II). Once an individual's net worth fell by 20% their new value becomes small enough that it would take a 33% gain just to get back to even. If your stock or funds grew 33%, but that only brought you back to "even", then what good was the 33% gain? Percentage gain is really not as relevant as total account value. We often hear sales claims of how well a particular mutual fund performed in a given year, but if that year was a recovery year, the only person it would have helped would have been the luck investor who got in at the bottom. Common sense tells us that if you were going to run a race and your competitor could run straight and never stop, but you had to stop every quarter mile and run backwards for 100 yards. Who would win that race? That is what happens when you invest in something that can go down as well as up.

One of the more recent solutions was the utilization of the mutual fund concept.

The idea was that an investor's risk would be dampened by the ownership of a "basket" of stocks thereby reducing the impact of a bad performer or two. What we have seen, however, is that with such proliferation of funds it is virtually impossible to discern which fund is likely to perform. Fund managers resign; media attention causes quarterly "window dressing" of portfolios, and intra year distributions cause taxable events even when investors hold onto all of their shares. In 2003, John Bogle testified to congress that the average mutual fund investor only realized a 2.4% gain for the prior 20 years. Congress was outraged. These results are far different than the 12% average long term gains that the public has been led to expect.

Kiplinger reported in 2000 that, "Of approximately 870 funds that have been around 9 years or longer, only ONE has outperformed the Standard & Poor's 500 index for each of those 9 years (see illustration 3). When an overall review of funds is conducted, the picture gets even clearer. Funds don't outperform the S&P for very long (see illustrations 4, 5, 6, & 7). The S&P is a mathematical compilation of 500 blue chip companies. 70% of ALL dollars in the U.S. Stock market are represented by the S&P. For all practical purposes the S&P represents a true snapshot of the U.S. economy. If the S&P goes up, many smaller stocks will go up too. Of even more importance, if the S&P goes up many smaller company stocks might also NOT go up with it! Often people who have suffered losses in individual stocks or funds are trapped mentally into wanting to wait for a recovery. The problem with that mindset is that often the market as a whole will recover, but the stocks a particular individual owns may not recover. This is not as much of an issue when looking at the S&P 500, however, because, if the S&P goes up so does the U.S. Market. The reason for this is that the S&P really does represent the U.S. economy as a whole.

What if you could have the long term gain of the S&P, but also never have to suffer the corrections?

It would be kind of like "having your cake and getting to eat it too!" In spite of the long-term stability of the S&P, it does still correct every 5-6 years or so. The economy as a whole is subject to economic shifts and trends. Equity Indexed Annuities gives you the best of both worlds. They give you the potential for double-digit gains while providing absolute insulation from decreases in principle or credited gains from any market downturns.

Here are a few questions to consider:

Would you sleep better if you could get the increase of the stock market, but never have to be concerned with a downside potential of the market?

Would a guaranteed minimum rate of return appeal to you?

Is consistent double-digit growth attractive to you?

Is safety of principle and prior gains important to you?

You might be thinking that this type of product must have a flaw. It really does not. If you saw a magician do tricks you might be stumped and amazed, but if he brought you backstage afterwards and showed you how it was done you would understand the simplicity forever. You would realize that it was really rather easy, once you understood just how it was done. These vehicles are not magic, however, and once you understand the mechanism, you realize just how tremendous the opportunity is.

In a nutshell, what the insurance company does is this. They take your dollars and purchase safe Government Bonds and also investment grade corporate bonds. Additionally, they keep approximately \$1.03 in reserve for every \$1.00 that you invest. The bonds draw regular interest. They put a percentage of the interest away for your minimum gain and take the rest of the interest from the bonds and purchase “call options” on the S&P 500.

A “call option” is basically the purchase of the “right” to buy shares for a limited period of time for a set price. This is similar in a sense to an option to purchase a home. If you are renting and the owner explains that if you are willing to pay him \$1000 dollars he will give you the “right” to purchase his home for \$100,000 for a period of one year. If you elect to purchase this “option” and one year later the home is worth \$150,000 you could exercise the option, buy the home and sell it for a handsome profit. Your small \$1000 “cost” managed to control over \$100,000 of value. If the house were instead only selling for \$75,000 one year later, you could choose to not buy the home and you only lost your \$1000. Notice that the entire time, all of the rest of your assets were uninvolved with the option. Your only risk was the \$1000. That is exactly what these insurance companies do. They purchase “options” to buy the S&P 500 index with the “interest” generated from the bonds! Your investment never leaves the safe bond instruments.

How good have the gains been with this very safe but unique strategy? One company reported the following results from 1996 to 2000.

From 4-2-97 to 4-2-98 they posted --- 24.37% Tax Deferred gains!
From 8-31-98 to 8-31-99 they posted our largest gain yet of 37.9% Tax Deferred.
For all of 1996 issues we posted 17.71% Tax Deferred
For 1997 it was 12.9% Tax Deferred.
For 1998 it was 11.43% Tax Deferred.
And for all issues regardless of date it has averaged 11.23% Tax Deferred.

Many other companies have reported similar results.

As the market corrections of 2000-2003 and 2008 to 2009 occurred millions of people lost money in the stock market. In contrast, the EIA vehicles averaged 8.34% from 1998 to 2003 and from 2003 through 2007 they averaged 8.4%.

In 2008 the world wide global financial crisis saw index drops close to 65% yet no clients with EIA’s lost money in those accounts. Even more exciting was the fact that 2009 to

2010 resulted in a “technical bounce” that gave many EIA clients gains that averaged from 7 to 25%. This was quite remarkable for a product with so much safety.

Equity indexed annuities boast an additional benefit; they grow TAX DEFERRED!

What is the significance of TAX DEFERRED GROWTH?

Lets assume that you are in the 33% tax bracket. If you made 10% tax deferred on an investment you would have to earn 14.93% in a taxed investment. Why--- because once you pay your taxes your gain was not as high. If you made 6% on a CD, by the time you paid taxes on the gain, you really only made 4% after taxes.

Equity Indexed Annuities are also probate free. That means that in the event of your death, your beneficiaries will receive a check directly from the insurance company. The process totally avoids the necessity of going through probate court. Your “beneficiary” can choose to either keep the investment intact or take the money out for their immediate use. It transfers immediately, again avoiding probate delays. As you are probably aware, probate delays in extreme situation could run into years!

The last reason to consider an equity-indexed product is this. The gains you make, you get to keep! If you had bought a stock at \$50 dollars in January and it had gone up to \$100 throughout the year, but in December was back to \$50; all you could sell it for would be \$50. With our product we give you an average of where it had been. The net result is that you could have had a nice gain even in relatively flat years if the market had been volatile. This phenomenon is impossible with any investment that is directly in the market itself!

Lets summarize the highlights:

1. Potential for High Return.
2. No Downside Risk.
3. Tax Deferred.
4. Avoids Probate thus preserving what you want your heirs to receive.
5. Annuity interest growth is not calculated into social security income thresholds and therefore lower your tax bracket when with regard to Social Security.
6. Annuities can provide life-time income.

If you would like additional information on the products available in your area feel free to give us a call at: 877-878-3472 or visit www.Stevelucks.com

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Steve Lucks, M.S.